Summary

1. This submission addresses the notification of exclusive dealing by Australia and New Zealand Banking Group (ANZ) (N99426) provided to the Australian Competition and Consumer Commission (ACCC) on 10 November 2016.

2. ANZ have notified the ACCC that they intend to engage in conduct that could be viewed as a technical contravention of third line forcing provisions. ANZ intend to provide an offer of finance to pay for motor vehicle insurance or car loan protection insurance, also known as Consumer Credit Insurance (CCI), on condition that insurance is purchased from a nominated provider.

3. The Australian Securities and Investments Commission (ASIC) does not have a view on how the ACCC should respond to the notification. However, given the range of the work ASIC has been doing recently in relation to add on insurance we submit the following information to assist the ACCC in its public benefits assessment of the notification:

   a. ANZ has not provided any evidence to demonstrate that the insurance products attached to ANZ's banking product are price competitive or that their forecast loss ratios indicate that the consumer is getting value for money; and

   b. Consumers may be at risk of purchasing CCI that is unnecessary or inappropriate as consumers typically give little consideration to their insurance needs or the insurance products available prior to the purchase of a motor vehicle.

4. This submission analyses the risks from the sale of add-on insurance products, including that they may not be priced competitively or that the loss ratio on the product may indicate that the consumer is not getting reasonable value for money.

ASIC's review of add-on insurance

5. Over the last year ASIC has conducted a detailed market review of the sale of add-on insurance products, focussing on the sale of these products through car dealerships.

6. 'Add-on' insurance is a term used to describe an insurance product that is 'added on' to the sale of another product which is the main focus for the consumer. ASIC focused on add-on insurance sold to consumers when they purchased a new or used car, where the products sold either may cover risks relating to the car itself (e.g. comprehensive insurance) or risks relating to any credit contract where the consumer takes out a loan to buy the car (e.g. insurance to cover loan repayments if the consumer becomes ill).

7. In 2016 ASIC released three reports relating to the sale of add-on insurance products sold through car dealers:

   a. REP 470 *Buying add-on insurance in car yards: Why it can be hard to say no*;

b. REP 471 *The sale of life insurance through car dealers: Taking consumers for a ride*; and
c. REP 492 *A market that is failing consumers: The sale of add-on insurance through car dealers*.

8. ANZ's notified conduct does not relate to the sale of finance and insurance in car dealerships but some of the findings are relevant to the sale of insurance products sold as an 'add-on' to finance products for motor vehicles.

Third-line forcing risks poor consumer outcomes

Comparison of cost of cover under CCI and other life insurance products

9. REP 471 analysed the comparable cost of CCI products and term life insurance. The insurance products are comparable as they insure the same risk (the insured dying) with similar exclusions and they all have a similar application process. ASIC found that two of the insurers surveyed:
    a. sold a similar CCI product through an authorised deposit-taking intuition (ADI); and
    b. that this CCI product was sold for a substantially higher price than term life insurance cover for a similar amount sold directly from the insurer to the consumer.

10. Our findings are set out in Table 1 below. They compare the cost of a similar amount of life cover ($50,000) for both a low-risk insured (20 year old female non-smoker) and higher-risk insured (40 year old male smoker) across a term life product and CCI product sold by the same insurer and distributed through an ADI.

Table 1: Comparison of cost of term life insurance with cost of CCI sold through an ADI.

Insurer	Term Life (20 year female non-smoker)	Term Life (40 year male smoker)	CCI sold through an ADI
Insurer A	$249	$537	$900
Insurer B	$276	$644	$1342

11. In the examples provided in Table 1, the CCI sold through an ADI is significantly more expensive:
    a. For a 20 year old female non-smoker, between 3.62 and 4.87 times more expensive than term, life cover; and
    b. For a 40 year old male smoker, between 1.68 and 2.09 times more expensive

These examples are based on 2015 data provided to ASIC. They are not an indication of the costs that would be charged to consumers under the proposed ANZ notification, but reflect the general risks in this market, including that consumers may not be price-sensitive, allowing non-competitive premiums to be charged.

Forecast loss ratios

12. The forecast loss ratio is a measure of whether the consumer is receiving value for money when purchasing an insurance policy. The loss ratio is the difference between the amount of premiums paid to an insurance company and the amount paid out in claims by the company.

13. Loss ratios in the insurance industry vary greatly, for example, car insurance payout ratios are about 85%, home insurance about 55% and add on insurance sold in car yards is as low as 9%. Low loss ratios represent very poor value for consumers.

14. In its application ANZ has not stated what the loss ratio of the add-on insurance products will be, so it is not possible to assess whether consumers will receive value for money.

Consumer awareness of add-on products

15. REP 470 found that most consumers had given little consideration to insurance before purchasing and financing a motor vehicle. While ASIC's research did not specifically relate to the sale of CCI as an add-on insurance product sold through ADIs, the ACCC may find ASIC's findings relevant to its consideration of ANZ's notification.

16. REP 470 found that most consumers were unaware that add-on insurance existed until it was offered to them. Prior to the offer of add-on insurance, few customers:

    a. Researched or considered their insurance needs, including whether they already held insurance that might provide them with cover (for example, through their superannuation fund); or

    b. Compared competing products to check:

        i. what insurance products were available and which of these they may need; and
        ii. which products provided best value for money.

17. REP 470 found that the consumer only has a short period of time to familiarise themselves with any add-on insurance offered prior to making a purchase decision. There is risk that the consumer may duplicate existing cover, purchase a product that is unsuitable or they do not fully understand.

18. Depending on how insurance is sold under the ANZ model, there may be a particular risk that life cover under a CCI policy is sold to consumers whose need for this is marginal at best. Consumers aged 21 and under are unlikely to need the insurance if they do not have dependants and may already have sufficient life insurance to discharge their liabilities through their superannuation fund. REP 471 found significant levels of sales of life cover to young people that were unlikely to need the insurance.

19. This risk is exacerbated if ANZ's CCI product is sold through a 'general advice' model under the Corporations Act 2001. All of the sellers of add-on insurance surveyed in REP 492 used the general advice or no advice models where only factual advice is provided to the consumer. The consequences of the 'general advice' model are that:

    a. the person selling the product can promote its benefits and advantages; and

    b. they are under no obligation to ensure the product is suitable or meets the needs of the consumer.

20. REP 492 identified significant limitations in the general advice model in that it places the responsibility for good purchasing decisions on the consumer, in a sales environment where they may not be equipped to exercise sound judgement. In summary, selling insurance as an add-on product under a general advice model creates a risk of consumers being sold a product that they do not need.

Conclusion

21. In order to better assess the public benefits of the notification the ACCC could:

    a. Obtain information from ANZ so that the ACCC can determine whether the insurance products attached to ANZ's banking product are competitively priced, and that forecast loss ratios suggest that the consumer is getting value for money; and

    b. Assess whether consumers may be at risk of purchasing CCI that is unnecessary or inappropriate, depending on the nature of the exclusions and the sales model that will be used by ANZ.